
New Statewide Uniform Accounting

MEMORANDUM

TO: Chief Financial Officers
All State Departments and Agencies

FROM: John J. Linderman, Director
Office of Financial Management
Department of Management and Budget

Joseph A. Slivensky, Director
Bureau of Human Resource Services
Department of Civil Service

Bruce C. Walker, Director
Office of Purchasing
Department of Management and Budget

DATE: September 16, 1997

SUBJECT: New Statewide Policy and Procedures for Uniform Accounting
And Reporting of Contractual Agreements and Related
Expenditures

The purpose of this memorandum is to provide information related to a new statewide policy intended to enhance our overall contract management capabilities. The Directors of the Department of Management and Budget and the Department of Civil Service recently notified all department directors of the need for these changes in a memorandum dated August 28, 1997.

General Background

The Department of Management and Budget and the Department of Civil Service have concluded that current procedures need to be revised to allow us to more effectively carry out our responsibilities to administer and control contract expenditures, prepare reports summarizing statewide data, and respond to inquiries in a timely and efficient manner. In addition, a new process needs to be put into place to meet monthly FY 1997-98 legislative reporting requirements.

The Michigan Administrative Information Network (MAIN) provides the capability for us to better meet these monitoring and reporting needs. Beginning October 1, 1997, all departments and agencies will be required to record all contractual agreements subject to this directive and related payments into consistent MAIN-based coding elements. Compliance with these procedures will

significantly reduce your department's burden associated with meeting new and existing reporting requirements, as the Department of Management and Budget and the Department of Civil Service will utilize the MAIN based data to prepare and submit reports for all the principal departments and agencies.

Statewide Policy-Accounting and Reporting for Contractual Agreements

Unless excluded as being outside the scope of this directive, all purchase agreements with independent contractors that are for commodities or services that provide a direct benefit to the State of Michigan (that are or should be supported by a formal contract) must be recorded into ADPICS using a Blanket Purchase Order (BPO), a Purchase Order (PO), or a Direct Purchase Order (DPO) document. In addition, the electronic CS-138 approval system (within MAIN) must be used when submitting requests to contract for *personal services* to the Department of Civil Service.

All contract payments must be processed via an ADPICS Voucher or Direct Voucher, or an R*STARS Voucher or interface. These documents and interfaces will contain coding that will provide a link between payments and purchasing documents (within MAIN) which will be used to meet monitoring and reporting needs. The use of these alternative payment methodologies will be re-assessed during FY 1997-98 as we consider broader implementation of standard ADPICS functionality.

Implementation Guidance and Assistance

Attached is a document providing detailed guidance for recording contracts and related payment activity into MAIN. The document also provides guidance on using the electronic CS-138 system within MAIN, as well as an alternative for a transition period during the first quarter of 1997-98. This guidance material will be the focus of a training program that will be offered on September 25, 1997, at the Law Auditorium and September 29, 1997, at the State Library Auditorium. Both sessions are scheduled for 1:00 p.m. to 5:00 p.m. and will cover the same material. Please have staff call (517) 241-0945 to pre-register as seating is limited.

If you have questions about this initiative, please contact any of us, as appropriate, or Mr. Steven R. Stier, Director of the Technical, Audit, and Business Services Division of the Office of Financial Management at 373-1010.

Attachment

cc: Appointing Authorities
Procurement Officers
Chief Accountants

General Background

The Department of Management and Budget and the Department of Civil Service have concluded that current procedures need to be revised to allow us to more effectively carry out our responsibilities to administer and control contract expenditures, prepare reports summarizing statewide data, and respond to inquiries in a timely and efficient manner. In addition, a new process needs to be put into place to meet monthly FY 1997-98 legislative reporting requirements.

The Michigan Administrative Information Network (MAIN) provides the capability for us to better meet these monitoring and reporting needs. Beginning October 1, 1997, all departments and agencies will be required to record all contractual agreements and related payments for services and commodities subject to this directive into consistent MAIN coding elements. Compliance with these procedures will significantly reduce your department's burden associated with meeting new and existing reporting requirements. The Department of Management and Budget and the Department of Civil Service will utilize the data in MAIN to monitor expenditure activity and prepare and submit reports for all principal departments and agencies.

Statewide Policy-Accounting and Reporting for Contractual Agreements

Unless excluded as being outside the scope of this directive, all purchase agreements with independent contractors that are for commodities or services that provide a direct benefit to the State of Michigan (that are or should be supported by a formal contract) must be recorded into ADPICS using a Blanket Purchase Order (BPO), a Purchase Order (PO), or a Direct Purchase Order (DPO) document. In addition, the electronic CS-138 approval system (within MAIN) must be used when submitting requests to contract for *personal services* to the Department of Civil Service.

All contract payments must be processed via an ADPICS Voucher or Direct Voucher, or an R*STARS Voucher or interface. These documents and interfaces will contain coding that, using the instructions in this directive, will provide a link between payments and purchasing documents which will be used to meet monitoring and reporting needs.

Defining the Population of Contracts which are Subject to this Directive

As noted on the prior page, the new Statewide policy is:

Unless excluded...all purchase agreements with independent contractors that are for commodities or services that provide a direct benefit to the State of Michigan...must be recorded into ADPICS....

This definition intentionally prescribes broad parameters for the contractual activity that should be coded into MAIN. Please note that the requirement pertains both to commodities and services that are purchased directly by the Department of Management and Budget and those for which the procurement process is delegated to operating agencies and, therefore, not under the direct oversight of the Department of Management and Budget.

We recognize that service-related contracts cover a broad spectrum of State contracting activity. The above definition is intended to include personal services either preauthorized or authorized by the Department of Civil Service, as well as those services that may not be under the oversight of the Department of Civil Service. Also included in this definition are all contractual arrangements with local units of government, non-profit agencies, and individuals which provide financing for State programs. Examples would include contractual agreements with local government or non-profit agencies which provide or coordinate the delivery of substance abuse services, foster care services, public health programs, and mental health programs.

The only exceptions to these coding requirements currently authorized are for those programs that:

(1) Provide financing to direct service providers (e.g., doctors, hospitals, retailers) based on a specified amount for each service (and/or product) delivered to eligible program recipients and which are governed by the general provisions of a financing agreement for services rendered

rather than a specific contract. Examples of these type of programs are:

- Payments to medical providers delivering services eligible for reimbursement by the Medicaid program.
- Payments to vendors which provide food products to participants in the Women, Infants and Children program.

(2) Constitute distributions of revenues under state appropriations that provide financing without any contractual restrictions or obligation on the recipients' part to provide services to or on behalf of the State. Examples would include appropriated amounts for colleges/universities and revenue sharing with local units of government for unrestricted purposes.

Those departments and agencies that administer programs that are similar to those described in (1) and (2) above may exclude such programs from the coding requirements, with the approval of the Office of Financial Management (OFM). Requests for approval to exclude such programs should be submitted in writing to OFM, together with a brief description of the program and how the department/agency will handle any legislatively prescribed reporting requirements.

As stated previously, the scope of applying this directive has intentionally been established broadly to encompass most types of contractual purchases. The Department of Management and Budget will, however, consider agency requests to exclude other categories of contracting from these coding requirements, provided that there are persuasive reasons for doing so. These requests must be submitted in writing to OFM, and include a complete description of the contracted activity and the business-reason(s) why the activity should be excluded from the coding requirements. Plans for handling all legislatively required financial reporting must also be detailed.

Use of the Electronic CS-138 Approval System in MAIN

Agencies are required to use the ADPICS 2117 Request to Contract for Personal Services screen as an approval system for the acquisition of services that are specifically authorized by the Department of Civil Service. This requirement extends to special personal service arrangements (paid on payroll) as well as services to be delivered by independent contractors.

For internal approvals, the agency will need to establish an approval path which will route the document to appropriate department staff for review and authorization. Posting of the document will occur after the last person in the path has approved.

When the request exceeds your department or agency's delegated authority, the document will be routed to the Department of Civil Service for approval. In some cases, it may be necessary to forward associated documentation to the Department of Civil Service as well.

In all instances in which a contract with an independent contractor is either preauthorized or directly authorized by the Department of Civil Service, the ADPICS Requisition/ Purchase Order, the Direct Purchase Order, or the ADPICS Blanket Purchase Order must include a reference to an authorization number that is prescribed by the Department of Civil Service (for preauthorized services) or the MAIN system for services directly authorized on a CS-138.

The original electronic CS-138 number must be identified on related Blanket Purchase Orders, Purchase Orders, or Direct Purchase Orders. The original CS-138 will then be linked to the CS-138 amendments using the 'original ref #' field on the ADPICS 2117 Request to Contract for Personal Services screen. If multiple Blanket Purchase Orders are covered by a single CS-138, it is appropriate to reference the same CS-138 number on each Blanket Purchase Order created.

Finally, all existing CS-138s extending into FY 1997-98 will need to be converted into the new system-generated numbering sequence. The Department of Civil Service will lead and coordinate the conversion of the existing approved documents with the departments and agencies.

The Department of Civil Service will be issuing additional guidance and information on the use of the CS-138 system.

Summary of Acceptable Methods of Recording Contracts and Contract-Related Payments

Methods of Recording Contracts:

The Department of Management and Budget is requiring that departments and agencies use one of the following two methodologies to record contracts. Departments and agencies may use either (or both) of the methodologies, depending on their needs and individual circumstances:

1. Use of ADPICS Purchase Orders/Direct Purchase Orders-for services or commodities provided within a single fiscal year.
2. Use of ADPICS Blanket Purchase Orders (with or without Contract Releases)-for services or commodities in which delivery spans multiple fiscal years (or are within a single fiscal year if payment method 2, 3, or 4 below is selected).

Methods of Recording Contract-Related Payments:

The Department of Management and Budget is requiring that departments and agencies use one of the following four methodologies to link contract-related payments to the recorded contracts. Departments and agencies may use any, or all, of the different methodologies, depending on their needs and individual circumstances:

1. Use of the system-based payment functionality with ADPICS Purchase Orders, Direct Purchase Orders, or Contract Releases against Blanket Purchase Orders. This payment methodology is applicable to contracts recorded under category #1 above and Blanket Purchase Orders (#2 above) *with Contract Releases*.
2. Use of ADPICS Direct Vouchers which reference the Blanket Purchase Orders. This is applicable only to Blanket Purchase Orders (#2 above) *without Contract Releases*.
3. Use of R*STARS Vouchers which reference the Blanket Purchase Orders. This is applicable only to Blanket Purchase Orders (#2 above) *without Contract Releases*.
4. Use of an interface into R*STARS which references the Blanket Purchase Orders. This is applicable only to Blanket Purchase Orders (#2 above) *without Contract Releases*.

Methods of Recording Contracts

Use of ADPICS Purchase Orders/Direct Purchase Orders

An ADPICS Purchase Order or Direct Purchase Order may be used for services or commodities provided within a single fiscal year. These documents can be used as independent purchasing documents or as a contract release against Blanket Purchase Orders (which is detailed in the next section). The CS-138 number must be entered on the purchase requisition or the Direct Purchase Order as described in the next paragraph. Please note that when a department or agency uses these documents as a contract release against a statewide/multiple agency Blanket Purchase Order for services, a separate CS-138 is required for each department using the statewide/multiple agency Blanket Purchase Order.

Purchase Orders are generated from a Purchase Requisition. For services, the Purchase Requisitions must have the 'CS138 ID' field completed with the original CS-138 number. This will

provide a link between the CS-138, the subsequent Purchase Order, and the payment. Direct Purchase Orders must have the CS-138 number recorded in the first thirteen (13) spaces of the 'P/O Title field', with the first two spaces coded "XX" followed by the CS-138 number.

Terms and conditions applicable to the procurement may be included within the ADPICS document and/or referenced to a separate document prepared by the department, (which is "external" to MAIN). The remainder of the procurement/payment process remains unchanged from existing ADPICS functionality.

Use of ADPICS Blanket Purchase Orders

For Blanket Purchase Orders established by agencies an ADPICS 2342 Blanket Purchase Order Writing screen will be required for all contracts which span multiple fiscal years or for those contracts which payment method 2, 3, or 4 (from page 6) is selected. For services, the Blanket Purchase Order must reference the original CS-138 number in the 'CS-138 Doc ID' field. Users must also complete the ADPICS 2348 Blanket Purchase Order Detail screen to document the commodity code and total contract value and the authorized users screen with 07114*** with \$0 dollars and their own appropriate ADPICS department numbers with associated dollar levels. Terms and conditions applicable to the procurement may be included within the ADPICS document and/or referenced to a separate document prepared by the department which may be "external" to MAIN.

Use of ADPICS Blanket Purchase Orders

To create an authorization for a vendor to provide a service and/or commodity, the contract release document will be prepared using a "BP" document type. The remainder of the procurement/payment process remains unchanged from existing ADPICS functionality.

Statewide/multiple-agency Blanket Purchase Order for services (which requires the department or agency to obtain separate CS-138 approval) will typically be created using the ADPICS Requisition/Purchase Order process. These contracts are issued for use by multiple agencies/departments, and each entity utilizing the contract must obtain any required CS-138 approval for its own projects. Direct Purchase Orders are acceptable as contract release documents for these contracts if the CS-138 number is recorded in the first thirteen (13) spaces of the 'P/O title' field, with the first two spaces coded "XX" followed by the CS-138 number.

For agency-specific Blanket Purchase Orders established by Office of Purchasing, a Direct Purchase Order or a Purchase Order may be used as the contract release.

Methods of Recording Contract-Related Payments

The following paragraphs describe the payment methodologies associated with the applicable methods of recording contracts on pages 7 and 8.

Use of the System-Based Functionality with Purchase Orders, Direct Purchase Orders and Contract Releases (against Blanket Purchase Orders)

Although not currently required, some departments and agencies are now using the full capabilities of ADPICS to record contract obligations and related payments. While this directive provides alternative methodologies as options to the use of full ADPICS functionality, the Department of Management and Budget encourages and, in fact, prefers that full ADPICS functionality be utilized because encumbrances are automatically recognized and payments are systematically linked to Purchase Orders, Direct Purchase Orders and Contract Releases (to Blanket Purchase Orders).

For more information related to using this functionality, please refer to the ADPICS reference manuals and enroll in the related MAIN Training courses.

Use of Direct Vouchers with Blanket Purchase Orders (without Contract Releases)

Payments based on the terms of a Blanket Purchase Order may be prepared using the ADPICS 1800 Direct Voucher Header Entry using document/ document type DV/BP upon receipt of the invoice and acceptable delivery by the contractor. Departments and agencies must enter a Blanket Purchase Order reference number (e.g., B8999999) in the 'doc rf no' field of the Direct Voucher followed by the FACS agency that created the Blanket Purchase Order as the final three digits in the 'doc rf no' suffix field, (e.g., 431 for the Family Independence Agency). The remainder of the procurement/payment process remains unchanged from existing ADPICS functionality.

The Direct Voucher may not be used in the payment process (e.g., as a contract release) for any Office of Purchasing established Blanket Purchase Orders, ***except for the office supplies contract.***

Use of R*STARS Vouchers with Blanket Purchase Orders (without Contract Releases)

Payments based on the terms of an agency-established Blanket Purchase Order may be prepared using the S505 Pre-Enc/Enc/Expend Transaction Entry screen, Document Type "VP," upon receipt of the invoice and acceptable delivery by the contractor. Departments and agencies must enter a Blanket Purchase Order reference number (e.g., B8999999) in the 'ref doc/sfx' field and the FACS agency or batch agency code as the final three digits in the 'ref doc/sfx' field, (e.g., 431 for the Family Independence Agency).

This method may not be used for contracts established by the Office of Purchasing.

Use of R*STARS Interfaces with Blanket Purchase Orders (without Contract Releases)

Agencies which process contract payments into R*STARS through interfaces must enter the Blanket Purchase Order number in the 'ref_doc_no' field and the FACS or batch agency in the 'ref_doc_no_sfx' field. This will require changes to interfaces. Agencies will be required to complete a *Request for New or Modifications of Inbound Interfaces* and process the request per Office of Financial Management and MAIN procedures.

Acceptable Uses of Direct Vouchers Functionality without Blanket Purchase Order References

The Department of Management and Budget will be routinely monitoring Direct Voucher payment activity for appropriate usage and the occurrence of payments that do not reference a Blanket Purchase Order document. Although we recognize that there are a number of payment types for which use of a Direct Voucher without a Blanket Purchase Order reference is acceptable, it appears that this functionality has often been used when other ADPICS documents would be more appropriate.

The following list illustrates payment categories that we anticipate would appropriately be processed using Direct Vouchers without a reference to a Blanket Purchase Order:

- Utilities
- Travel related expenses
- Grants or assistance (paid without contractual restrictions)
- Postage, seminar fees, subscriptions, etc. (obtained without using a Procurement Card or a contract)
- Other miscellaneous financial transactions (i.e., those requiring an "FTR" commodity

code that are paid without contractual restrictions).

Departments and agencies should limit the use of Direct Vouchers that do not reference a Blanket Purchase Order to the above types of payments. For any categories of payments where there may be uncertainty as to whether a Direct Voucher should be used (without a reference to a Blanket Purchase Order), please contact either the Office of Purchasing or the Office of Financial Management.

If we determine that Direct Vouchers are routinely used for contract-based acquisitions without appropriate references to Blanket Purchase Orders, we may require the implementation of full ADPICS functionality for all contract payments in the future.

Implementation Date/Conversion Period; References for Follow-up Questions

These coding requirements will be effective for all new contracts beginning on or after October 1, 1997. All contracts must be converted to one of the methods which link purchasing documents to payment activity by January 1, 1998.

For contracts beginning prior to October 1, 1997 and extending into FY 1997-98, departments may elect to monitor contract activity outside of MAIN until December 31, 1997. This is also an option for contracts beginning prior to October 1, 1997 and ending sometime during the first quarter of FY 1997-98. If this option is selected, departments and agencies will be responsible for preparing and submitting all required reports, through December 31, 1997 data, to the Office of Financial Management. Departments and agencies selecting this option must notify the Office of Financial Management of this intent, by October 15, 1997. Please include a description of the contracts and the methods that will be used for accumulating required data.

All approved CS-138s that will be effective on or after October 1, 1997 must be re-submitted electronically by December 31, 1997.

References for Follow-up Questions

Questions related to this policy and procedural directive should be directed to:

Marge Fuller (373-7312) for Purchasing issues
Mary Lindsay (373-3072) for CS-138 issues
Beverly Martin (335-5224) for MAIN/ADPICS issues
Steve Stier (373-1010) for Financial Management issues